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Week Ahead July 24-28th: Highlights include FOMC, US GDP, PCE; ECB, BoJ; PMIs; Spain elections

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- **SUN:** Spanish Elections.
- **MON:** EZ/UK/US Flash PMIs (Jul).
- **TUE:** German Ifo Survey (Jul), NBH Announcement, Richmond Fed (Jul).
- **WED:** FOMC Announcement, Australian CPI (Jun).
- **THU:** ECB Announcement, US GDP Advance/PCE (Q2).
- **FRI:** BoJ Announcement & Outlook Report, French Flash CPI (Jun), Spanish Flash CPI (Jun), EZ Business Confidence Survey (Jul), US PCE (Jun).

NOTE: Previews are listed in day order

SPAIN ELECTIONS (SUN): Spain goes to the polls on July 23rd with all 350 Congress of Deputies seats and 208/265 Senate seats up for grabs. Elections were called early after incumbent PM Sanchez's PSOE party suffered heavy losses in the May local elections. Currently, polls have People's Party (PP) on around 35% or 135 seats and the incumbent Socialist Workers' Party (PSOE) on 29% or 106 seats. Given that no party is on course for an outright majority, a number of options present themselves. Feijoo's PP looks like it will be closest to the 176 majority hurdle, and thus may decide to attempt to proceed with a minority government; though, this would only be viable if PP was close to the 176 mark. Alternatively, a minority government propped up by some of the smaller parties or a coalition with right-wing Vox are the next viable options; though Feijoo has pushed back on the latter. On the flip side, Incumbent PM Sanchez's PSOE and Sumar could end up working together to prevent a rightwing coalition from entering power, however as things stand this would necessitate the support of numerous smaller parties either as a formal coalition or via external backing. Crucially for markets, the election occurs during the typical fiscal planning period for the next FY. Therefore, the market reaction may well be more evident in the weeks/months post-election and be dependent on how the planning process goes and its eventual results with particular interest around the deficit.

EUROZONE PMI (MON): Expectations are for the manufacturing PMI in July to tick marginally lower to 43.3 from 43.4, services to slip to 51.4 from 52.0, and pushing the composite down to 49.6 vs. prev. 49.9. The prior report saw a drop off for both the manufacturing and services components with the release noting "the eurozone economy ground to a halt at the end of the second quarter, ending a robust sequence of services-led growth seen since the beginning of the year". This time around, analysts at Oxford Economics note "based on the declines recorded in earlier sentiment data released this month such as the Sentix and the ZEW indices, we expect the eurozone composite PMI to fall further below the 50-point threshold that separates expansion from contraction". The consultancy adds that "taken at face value, this suggests there's a considerable risk that eurozone GDP will contract in Q3 2023". From a policy perspective, the release will likely have little impact on Thursday's ECB rate decision (see below for details) which is nailed on to deliver a 25bps hike to the deposit rate.

UK PMI (MON): Expectations are for the services PMI in July to slip to 53.0 from 53.7, with the manufacturing component expected to fall to 45.9 from 46.5 and composite metric seen at 52.2 vs. prev. 52.8. The prior report saw declines in both the manufacturing and services components with the release noting "the service sector showed renewed signs of fragility in June as rising interest rates and concerns about the UK economic outlook took their toll on customer demand". This time around, analysts at Investec suggest that the increasingly hawkish interest rate bets seen at the start of the month could have "reduced corporate confidence in the economic outlook over the next twelve-months". The desk notes that despite downticks for all three metrics, it expects the services component to remain in expansionary territory and "continued to be supported by the relatively low level of unemployment in the economy and the still sizeable pool of excess savings that households (in the aggregate) have accumulated over the course of the pandemic". From a policy perspective, following the recent sub-forecast inflation print, odds now lay in favour of a 25bps hike (70%) vs. a 50bps adjustment (30%); a stronger-than-expected outturn could swing things back towards a more 50/50 outcome on the basis that the UK economy is proving more resilient than expected in the face of rising rates.

FOMC POLICY ANNOUNCEMENT (WED): The Fed is expected to lift rates by 25bps to 5.25-5.50% at its July confab, with traders looking for clues as to whether this is the central bank's last rate rise of the cycle, or whether it is likely to fire

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an additional hike at a future meeting, in line with its own projections. SGH Macro's Fedwatcher Tim Duy explains that "market participants are caught in the grips of a Goldilocks narrative as recession fears are once again pushed into the future while inflation suddenly looks vanquished." Ahead, Duy says that if growth firms in Q3, as incoming data suggest, then another hike will remain on the table, adding that even a temporary period of inflation could sideline the Fed, especially if growth slows to something clearly below potential, which he says is around 1.8%. "The Fed will, however, lean towards pulling off that second rate hike - we should not dismiss that possibility too easily," Duy writes, "we can easily envision that second hike if growth remains firm, but what we can't see yet is the data to support an increase in the SEP projected terminal rate in September, although a rebound of inflation could also easily make that happen."

AUSTRALIA CPI (WED): Australia will release its latest inflation data next week, including various CPI metrics for Q2 and the monthly CPI for June which officials will be hoping to see a further slowdown in price growth. As a reminder, the previous reading for Q1 was mixed as headline inflation topped forecasts with CPI QQ at 1.4% vs. Exp. 1.3% and CPI YY at 7.0% vs. Exp. 6.9%, but the headline annual pace slowed from its highest reading since 1990 of 7.8% in the December quarter, while the RBA's preferred Trimmed Mean CPI QQ and YY, as well as the Weighted Median CPI QQ and YY figures were all softer than expected. The Y/Y pace of inflation during Q1 was spearheaded by a 9.8% climb in the cost of Housing, an 8.6% increase in Recreation and culture, as well as an 8.0% rise in prices for Food and non-alcoholic beverages, while in terms of the monthly CPI, the prior reading for May was softer than forecast at 5.60% vs. Exp. 6.10% (Prev. 6.80%). Nonetheless, this remains firmly above the RBA's 2-3% target band which will likely keep policymakers on their toes with any pickup in pace to add to calls for the central bank to resume its hiking cycle.

ECB POLICY ANNOUNCEMENT (THU): As judged by market pricing and surveyed analysts, the ECB is once again expected to deliver a 25bps hike which would take the deposit rate to 3.75%. The decision to move on rates again will be based on the GC's view that inflation "is projected to remain too high for too long", which prompted President Lagarde to declare at the June meeting that there was still "more ground to cover" and the ECB is "not done" on rate hikes. Since the prior meeting, headline inflation has cooled to 5.5% from 6.1%, however, the super-core metric ticked higher to 5.5% from 5.3%. With this in mind and officials from the Bank widely flagging a 25bps hike, the actual rate decision itself will likely pass with little fanfare. Instead, focus for the release will be on any accompanying guidance or hints about what tightening (if any) will be delivered from September onwards. On which, reporting from Bloomberg has suggested that the toughest challenge policymakers are set to face will be how to keep the September meeting an open one by avoiding "strong signals of either another hike or a pause". As a guide, the policy statement currently includes the line "interest rates will be brought to levels sufficiently restrictive to achieve a timely return of inflation to the 2% medium-term target and will be kept at those levels for as long as necessary". Market pricing for September puts the chance of another 25bps move at around 50/50 in the wake of comments from hawkish GC member Knot (and partly as a result of global rate pricing on the back of soft UK inflation data) who refrained from putting a September hike on the table by suggesting that rate increases beyond July are "possible" but "not a certainty". President Lagarde's best course of action will likely be to stress the Bank's data-dependence given that come September the Bank will have seen the release of July and August inflation reports and will be armed with their latest macro projections.

US GDP (THU): The first look at GDP in Q2 is expected to show growth of 1.8% Q/Q annualised, cooling a little from the 2.0% rate seen in Q1. Credit Suisse notes that consumer spending growth slowed in Q2 to around 1.1% vs Q1's 4.2%, likely due to higher borrowing costs. Demand for durable goods also fell slightly, despite inflation pressures easing. The bank also expects net exports to have had a negative impact in Q2. On the other hand, the upside case is supported by business investment likely having had a contribution in the quarter. And while residential investment is expected to have very little contribution, the rate of decline eased, though high mortgage rates continue to be a hindrance.

BOJ POLICY ANNOUNCEMENT (FRI): The Bank of Japan will conduct its latest 2-day policy meeting next week and will likely keep policy settings unchanged, with rates to be kept at -0.1% and YCC maintained to flexibly target 10yr yields at 0% within a +/- 50bps target band. The central bank will also release its latest Outlook Report which contains Board members' median forecasts for Real GDP and Core CPI, while press reports have noted expectations that the BoJ could raise the inflation forecast above the 2% target level at the upcoming meeting, which if confirmed, could be seen to pave the way for further policy normalisation. There was also some speculation about a potential tweak in policy with former BoJ Director Hayakawa expecting an adjustment to yield curve control this month by potentially raising the 10yr ceiling to 1.0%. Reuters sources on Friday suggested the Central Bank is leaning towards maintaining its yield control policy at the next meeting. Many policymakers see no immediate need for action as the 10-year yield is trading stably within the 0.50% cap. Despite this, there is consensus that the yield curve control needs to end at some point, though the timing is not yet decided. Sources added that the BoJ is expected to revise up core inflation forecasts for FY23, albeit FY24 & FY25 forecasts are expected to be largely in-line with current projections. Rhetoric from the central bank continues to suggest a lack of urgency to tweak policy as Governor Ueda recently stated there is still some distance to go before sustainably achieving the 2% inflation target and the Bank has been patiently maintaining easy policy, while he added that unless the assumption on the need to sustainably achieve the 2% target changes, the narrative on monetary policy will not change. Ueda previously stated that responding to an inflation undershoot after a premature rate hike is more difficult than responding to an overshoot and that they have not changed policy because

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Japan's inflation is not considered sustainable now. Other officials have also suggested a preference to keep policy steady with Deputy Governor Himino stating that they must guide policy flexibly and the best approach is to maintain ultra-easy monetary policy, while Deputy Governor Uchida also said they will maintain YCC from a perspective of sustaining easy monetary conditions and there's still a long way to go before deciding to hike rates. The recent data releases have been mixed which favours a patient approach as Household Spending and Machinery Orders have contracted, while the latest BoJ quarterly Tankan survey mostly topped estimates and showed Japanese large manufacturers' sentiment improving for the first time in seven quarters. Furthermore, latest inflation data showed a slight acceleration and remained above the 2% price target, but is not expected to trigger a shift in policy given the central bank's view that inflation will slow in the middle of the current fiscal year.

US PCE (FRI): The Fed's preferred gauge of core PCE prices is expected to have risen 0.2% M/M in June, easing a little from the 0.3% increase seen in May. Hopes for cooling inflation have been supported by the June CPI data which, while differing slightly in methodology, posted a muted rise, adding to the argument that the downtrend in core inflation will accelerate, according to Capital Economics. Its analysts note that used vehicle prices posted a decent decline, as well as widespread falls in the prices of other core goods. And there were also signs that gains in core services ex-housing were slowing. "Although that was largely due to a plunge in airfares, which mainly reflects lower jet fuel prices rather than labour market conditions, it is nevertheless the sector Fed officials are watching most closely as they look for evidence the slowdown in core inflation will continue," they write.

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